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**中核集团**  
**CNNC**

**CNNC INTERNATIONAL LIMITED**

**中核國際有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2302)**

**FULFILMENT OF THE RESUMPTION GUIDANCE  
AND  
RESUMPTION OF TRADING**

**Financial Adviser to the Company**



This announcement is made by CNNC International Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements (the “**Announcements**”) of the Company dated (i) 31st March, 2021, 29th April, 2021, 30th April, 2021, 13th May, 2021, 30th June, 2022, 20th July, 2022, 29th July, 2022 and 29th August, 2022 in relation to, amongst other matters, the delay in publication of the annual results of the Group for the years ended 31st December, 2020 (“**FY2020**”) and 31st December, 2021 (“**FY2021**”) and the suspension of trading of shares of the Company (the “**Shares**”); (ii) 28th May, 2021, 31st May, 2021, 24th June, 2021, 8th October, 2021, 27th October, 2021, 29th November, 2021 and 17th June, 2022 in relation to, amongst other matters, the Resumption Guidance and other inside information of the Company; (iii) 29th July, 2021, 31st August, 2021, 30th March, 2022, 31st March, 2022 and 31st August, 2022, and the interim reports of the Company for the six months ended 30th June, 2021 and for the six months ended 30<sup>th</sup> June, 2022 in relation to, amongst other matters, the unaudited consolidated

results of the Group for the six months ended 30th June, 2021, FY2021 and for the six months ended 30th June, 2022; (iv) 9th September, 2022 and the annual reports of the Company for FY2020 and FY2021 in relation to, amongst other matters, the audited consolidated results of the Group for FY2020 and FY2021; (v) 15th August, 2022 in relation to, amongst others, the major findings of the Review, Background Investigation and Internal Control Review (the “**Major Findings Announcement**”); and (vi) 29th July, 2021, 29th October, 2021, 28th January, 2022, 28th April, 2022 and 28th July, 2022 in relation to, amongst other matters, the quarterly updates on status of resumption of trading in the Shares. Unless otherwise defined, capitalised terms in this announcement shall have the same meanings as those defined in the Announcements.

## **RESUMPTION GUIDANCE**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 30th April, 2021.

As disclosed in the announcements of the Company dated 28th May, 2021 and 29th November, 2021, the Stock Exchange imposed the following resumption guidance on the Company before the making of any request by the Company for the resumption of trading of the Shares (the “**Resumption Guidance**”):

- (1) conduct an appropriate independent review into the Issues, assess the impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions;
- (2) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules;
- (3) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (4) demonstrate the Company’s compliance with Rule 13.24 regarding sufficient operations and assets to warrant the continued listing of its shares; and
- (5) inform the market of all material information for the Company’s shareholders and investors to appraise the Company’s position.

## **FULFILMENT OF THE RESUMPTION GUIDANCE**

The Board is pleased to announce that all the Resumption Guidance have been fulfilled as at the date of this announcement, details of which are set out below.

**1. Resumption Guidance (1) – *Conduct an appropriate independent review into the Issues, assess the impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions***

Trading in the Shares has been suspended with effect from 9:00 a.m. on 30th April, 2021, pending the publication of the audited consolidated results of the Company for FY2020 (the “**FY2020 Annual Results**”). According to the announcement of the Company dated 29th April, 2021, the delay in publication of the FY2020 Annual Results was due to the fact that the audit works had not been completed, which could only be completed upon the satisfactory completion of a comprehensive review on the inventory write-down (previously referred to as “the impairment loss of inventory”) of approximately HK\$52,409,000 of the Company (the “**Inventory Write-down**”).

According to the announcement of the Company dated 13th May, 2021, the Inventory Write-down related to seven purchases of electronic parts and components (the “**Inventory Write-down**”) under the electronics products trading business (the “**Electronic Products Business**”), a sub-segment of the Group’s discontinued supply chain business (the “**Supply Chain Business**”) once engaged by the Company which commenced in 2018 and had its last trade entered into during 2020. The Problematic Purchases were made over a five-month period during October 2019 to February 2020 from three different suppliers (the “**Three Suppliers**”), which were intended for on-sale to two customers (the “**On-sale Customers**”) but which were subsequently not transacted and not collected by the On-sale Customers, and were later found to include a mix of substandard or refurbished, and counterfeit goods (the “**Problem Goods**”). The Problem Goods, except for a relatively small portion having been repurchased by one of the Three Suppliers, remained as inventories of the Group and were written-off in full as at 31st December, 2020.

The Company had made reports of suspected fraud (the “**Case Reports**”) arising from the Problematic Purchases to (i) the Hong Kong Police Force; (ii) the Customs and Excise Department of Hong Kong; and (iii) the Public Security Bureau of the PRC. As at the date of this announcement, the Case Reports were not proceeded by the authorities due to either the lack of evidence to warrant criminal investigations or their lack of jurisdiction to initiate any investigations in their views.

Having evaluated, among other things, the financial and inventory risks involved in the Electronic Products Business particularly brought to light from incidents of the Problematic Purchases, and the uncertainties on the macro environment attributed by the COVID-19 pandemic, in March 2020, the management of the Company resolved to cease the Electronic Products Business.

As disclosed in the Major Findings Announcement, with a view to addressing the Issues (i.e., the Three Concerns and ascertaining whether there are any internal control issues to be addressed), the Company, with the recommendations of the Audit Committee, engaged (i) the Independent Expert to perform the Review on the Issues; (ii) the Background Investigation Agent to perform the Background Investigation on the

customers and suppliers of the Electronic Products Business, their directors and shareholders, and relevant personnel of the Group who were considered to have involved (in varying degrees and/or capacities) in the Electronic Products Business; and (iii) the Internal Control Consultant to perform the Internal Control Review on the Group's existing internal control systems and procedures, and make recommendations on remedial actions (where applicable) in response to its findings. (collectively, the "**Investigative Works**")

*(a) The Background Investigation*

It was noted that three transaction relationships (the "**Transaction Relationship(s)**") existed among the seven counts of Problematic Purchases, which involved the Three Suppliers who were respectively introduced to the Company by the two On-sale Customers (or their respective management or controller, as the case may be).

During the course of the Company's continuous attempts to negotiate with the On-sale Customers and the Three Suppliers for refund or payments (as the case may be) concerning the Problem Goods, coupled with the internal investigation works conducted during such period, the Company came to the suspicion that the On-sale Customers (or their alleged ultimate customers) might have connections with the corresponding suppliers (or their alleged ultimate suppliers).

Against such background, and with a view to facilitating the Review in identifying the root cause(s) of the Problematic Purchases, the Company initiated the Background Investigation to look into the background of and relationships between the Three Suppliers and the On-sale Customers. The scope of the Background Investigation was designed to investigate, amongst others, (i) the suspected relationship between the customer and supplier (and their alleged controllers, as the case may be) under each of the three Transaction Relationships; (ii) whether there were collusion between the customer/supplier group under each of the three Transaction Relationships; and (iii) whether any of the then and existing Directors, management or employees of the Group who were responsible for the Electronic Products Business is/was related with the customers and/or suppliers of the Electronic Products Business.

In one of the Transaction Relationships ("**Transaction Relationship 1**"), based on the Background Investigation, it was very likely that (i) the alleged ultimate supplier and the alleged ultimate customer of Transaction Relationship 1 shared the same ultimate beneficial owners; (ii) the direct supplier of Transaction Relationship 1 ("**Supplier A**") has long known the alleged ultimate beneficial owners of the alleged ultimate supplier and the alleged ultimate customer, and was an agent for the products of the alleged ultimate supplier; and (iii) the direct customer of Transaction Relationship 1 ("**Customer A**") and its immediate downstream customer (the "**Downstream Customer**") were under the same controller.

Accordingly, connections could be reasonably established or justifiably believed (i) among the alleged ultimate supplier, the alleged ultimate customer and Supplier A; and (ii) between Customer A and the Downstream Customer. However, no obvious connection was identified from the Background Investigation between alleged ultimate supplier, the alleged ultimate customer and Supplier A on the one hand, and Customer A and the Downstream Customer on the other hand, other than a mere assertion that their respective alleged ultimate controllers were acquainted, in Transaction Relationship 1.

In another Transaction Relationship (“**Transaction Relationship 2**”), based on the Background Investigation, it was identified that one of the ultimate controllers of each of the direct supplier of Transaction Relationship 2 (“**Supplier B**”) and the direct customer of Transaction Relationship 2 (“**Customer B**”) shared the same correspondence / residential address. Accordingly, it was very likely that Supplier B and Customer B were related.

In the last Transaction Relationship (“**Transaction Relationship 3**”), based on the Background Investigation, no connection was identified or established between the direct supplier and the direct customer of Transaction Relationship 3.

No suspicious connection between the Directors, management or employees of the Group who were responsible for or involved (in varying degrees and/or capacities) in the Electronic Products Business on the one hand, and the customers and suppliers of the Electronic Products Business on the other hand was identified in the Background Investigation.

Please refer to the Major Findings Announcement for further details of the findings from the Background Investigation.

**(b) *The Review***

Based on the scope of the Review and subject to certain limitations as further particularised in the Major Findings Announcement, the Independent Expert has the following major findings on the Three Concerns:

*The First Concern – Root cause(s) leading to the Problematic Purchases*

As identified by the Independent Expert in the Review, the followings constituted the root causes leading to the Problematic Purchases:

- **Imprudent business planning and design** – The Independent Expert considered that, with hindsight, the product quality risk of the goods was not properly considered, as, according to the business model of the Electronic Products Business, the Company generally requested a deposit of only 20% of the estimated product sales amount from its customers, whereas the Company would settle the corresponding product purchase

amount in full to the supplier within a stipulated period after the receipt of goods by the Company, with the balance of the remaining 80% of the sales amount being settled by the customer typically after the Company paid to the suppliers. Also, no written policies and measures were implemented (at least up to the later part of 2019) to address such risk. Such imprudent business planning and design of the Electronic Products Business right from the beginning contributed as one of the root causes leading to the Problematic Purchases.

- **Weak governance and control environment** – The Independent Expert identified the responsible personnel for the executive and decision-making functions of the Electronic Products Business throughout its operation from 2018 to 2020 to comprise four personnel, including two former chief executive officers, the former chief operating officer and the former head of Business Department of the Company (collectively, the “**Operation Team**”).

The Independent Expert noticed that (i) no management with electronic products-related expertise assigned to the management structure before and after the commencement of Electronic Products Business; and (ii) risks concerns over goods obsolescence, the authenticity of the goods, and the financial standing and credibility of specific suppliers and customers raised by the Risk Management Department to the then Operation Team, which were also concurred by management of other departments of the Company involved in the transaction approval process (such as finance and accounting and company secretary), were either not positively responded, or worse, ignored, by the Operation Team and, in case where any follow-up actions were taken, they were not taken in a way that indicate due care, which ultimately led to the Problematic Purchases. According to the Review, the lack of staff competency, ignorance of red flags of operation risks and lack of prudent approval procedures demonstrated weak governance and control environment on the Electronic Products Business, and contributed as one of the root causes leading to the Problematic Purchases.

- **Internal control deficiencies** – Aside from the lack of management expertise, the Independent Expert also noticed that such deficiency was not made good by the internal control system and procedures. All in all, a series of internal control deficiencies were identified, which included (i) incomprehensive inspection policy established but not followed; (ii) no independent inspection organisation was engaged by the Company for product verification; (iii) no proofs of originality of suppliers were obtained for verification; (iv) no regular suppliers’ evaluation was conducted to assess the performance of suppliers; (v) no authenticity verification documents were obtained to avoid counterfeit products; (vi) lack of comparison of business plan; (vii) ignorance of red flags from the

Risk Management Department of the Company; and (viii) lack of due care on the part of the Operation Team.

Based on the above findings, the Independent Expert believed that the Operation Team generally lacks the competency relevant to the Electronic Products Business, and carried out their duties and responsibilities without sufficient due care and skills, particularly towards proper and/or balanced risk management considerations, ultimately allowing for the purchase of refurbished and counterfeit products, namely, the Problematic Purchases, and the entering into of transactions involving likely colluding customers and suppliers.

The Independent Expert also noted the Company's view that a lax risk management approach was allowed to persist in favour of business growth during the conduct of the Electronic Products Business, which prompted the relevant operational management and personnel to take advantage to downplay legitimate risk management concerns, to the extent that risk concerns raised and advices given by the Risk Management Department were at times sidestepped and neglected by the Operation Team.

The lack of experience and expertise of the Operation Team in the industry also contributed to the problems as an aggravating factor, to the effect that, in several occasions even when Operation Team tried to address the concerns raised by the Risk Management Department, no proper due diligence or proper follow-up actions were taken to support their responses. Such lack of skill and competency, coupled with the lack of due care when conducting the business, are considered to be one of the major root causes leading to the Problematic Purchases.

*The Second Concern – Whether there existed any staff misconduct or transfer of benefits*

According to the findings from the Background Investigation and the investigation works conducted under the Review, the Independent Expert was not aware of (i) any employee of the Company having involved in any fraudulent activities or misconduct behaviour that led to the Problematic Purchases; (ii) any suspicious connection between Company's employees and the On-sale Customers and other customers of the Electronic Products Business; or (iii) any suspicious connection between Company's employees and the Three Suppliers and other suppliers of the Electronic Products Business.

The Independent Expert also was not aware of (i) any material difference in conducting business and transactions within the Transaction Relationships against those in other transactions of the Electronic Products Business; (ii) any material difference in conducting business with the Three Suppliers and the On-sale Customers against that with other customers and suppliers; (iii) any material difference in the terms of transactions between the Problematic Purchases and other transactions of the Electronic Products Business; and (iv) any material

unexplained difference in gross profit margin in general between transactions with the On-sale Customers/Three Suppliers and other transactions of the Electronic Products Business.

*The Third Concern – Whether there was quality issue on other goods purchased from the Three Suppliers*

Procedures have been performed by the Independent Expert, including the attempts to confirm the transaction details, terms and settlement status with the customers and suppliers of the Electronic Products Business on the historical transactions by way of interviews and confirmation letters. However, due to the extended lapse of time from the cessation of entire Electronic Products Business, no positive feedbacks have been received save for the feedbacks from five customers/suppliers who (i) did not suggest there were any relationships between their respective companies and the Company (other than the business relationship arising from the Electronic Products Business); and (ii) did not suggest there were any fraudulent activities committed by the employees of the Group.

Despite the unsuccessful attempts, the Independent Expert carried out alternative procedures, including the review of the matched sales and purchase transactions conducted with the Three Suppliers or the On-sale Customers and examine the related documentations, the performance of analytical review on the historical sales and purchases transactions to identify any material discrepancies, including the terms and arrangement of the transactions related to the Three Suppliers and the On-sale Customers, and the review of the matched sales and purchase transactions conducted with other suppliers and customers (other than the Three Suppliers and On-sale Customers) to compare and contrast the key terms and arrangement. Based on the alternative procedures, the Independent Expert was not aware of, amongst others, any material difference in the terms of transactions between the Problematic Purchases and other transactions of the Electronic Products Business.

Please refer to the Major Findings Announcement for the scope and limitations of the Review, and further details of the findings from the Review.

**(c) *The Internal Control Review***

The key objectives of the Internal Control Review were to assess and identify significant weaknesses in the relevant procedures, systems and controls of the Group in relation to its existing business operations (which excluded the already ceased and discontinued Supply Chain Business), and to report findings and make recommendations for the enhancement of the internal control of the Group.

Based on the Internal Control Review, 15 internal control deficiencies have been identified, which included deficiencies on the existing business segment and the internal control system and procedures of the Group.



The management of the Company acknowledged and agreed with the review results of the Internal Control Review. Immediate actions have been taken to address the internal control deficiencies, and as at the date of this announcement, all internal control deficiencies have been fully rectified by the Company. The rectification measures aimed at reducing the related risks to a reasonable level, which include, but are not limited to, the setting up or enhancement of internal control policies and manuals, performance of periodic review of the policies and procedures, refiling of statutory forms, reassignment of access rights in the systems, and enhancement of the staff training system and policy.

Please refer to the Major Findings Announcement for the objectives and scope of the Internal Control Review, and further details of the findings from the Internal Control Review.

The Board, the Audit Committee and the Independent Director Committee have reviewed the content and the findings of the Review, the Background Investigation and the Internal Control Review, in their corresponding reports (collectively, the “**Investigation Reports**”).

The Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that, having taken into account the practical limitations not controllable by the Company (e.g., the time lapse since the occurrence of the Problematic Purchases and the uncooperative customers and suppliers) encountered by the Review, the Review represented a best-effort attempt, having carried out appropriate and reasonably practicable procedures and having the full support and cooperation by the Company, in investigating into the Issues and identifying the root causes leading to the Problematic Purchases, and that the content and the findings of the Investigation Reports are reasonable and acceptable.

The Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that, based on the findings available from the Investigation Reports, (i) there were significant internal control weaknesses, in terms of both the control environment and the implementation, concerning the Electronic Products Business; (ii) there were obvious downplaying (and at times disregard) on risk management and lack of due care and skills involved on the part of the Operation Team; and (iii) the combination of system and human factors was the principal root causes leading to the Problematic Purchases, which together contributed to the failure on the part of the Company to detect and identify the Problematic Purchases, and ultimately led to the happening of the Problematic Purchases and the involvement of the Company in transactions that were of doubtful commercial substance.

In relation to the four personnel of the Operation Team identified in the Review, the two former chief executive officers of the Company have resigned, both due to the policy of regular rotation of managerial personnel of the Group, whilst the Group has terminated the employment of the other two personnel of the Operation Team with effect from July 2022, due to the findings from the Review, whom has since been removed from all

positions of the Group (the “**Employment Termination**”). The Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that the Employment Termination is appropriate and proportionate to the magnitude and seriousness of the lack of due care and skills during their services with the Group that ultimately led to the Problematic Purchases and the consequential Inventory Write-down, and is satisfied that such course of action taken was reasonable in the circumstances.

Provided the fact that (i) the Electronic Products Business has completely ceased; (ii) the relevant four personnel principally responsible for the Electronic Products Business at the relevant time, being the Operation Team, has either been resigned or removed from all positions of the Group; and (iii) the internal control deficiencies identified in the Internal Control Review have been rectified, with enhancement measures taken to improve the internal control environment, the Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that the Company has sufficiently rectified the root causes leading to the Problematic Purchases to the extent possible, and is satisfied that there exists sufficient safeguards and measures to avoid events similar to the Problematic Purchases from happening again in the continuing business(es) of the Group.

Due to the bases particularised in the Major Findings Announcement, the Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that the Review has demonstrated the best efforts to address, and has addressed, the Three Concerns to the extent possible and practicable.

Regarding the Internal Control Review, the Board is of the view, which the Audit Committee and the Independent Director Committee concurred, that (i) all the internal control deficiencies identified in the Internal Control Review have been fully remediated and the related risks have been managed to an acceptable level; (ii) the remedial actions and enhancement measures implemented by the Group are adequate and sufficient; and (iii) the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules.

As the Electronic Products Business has been ceased entirely, and per the Internal Control Review, all the internal control deficiencies of the Company identified have been fully rectified, whereas enhancement measures have also been in place to improve the internal control environment, the Board considered that no material adverse impact has been brought by the Problematic Purchases onto the continuing business operation of the Company. The Board also considered that, other than the Inventory Write-down, which was one-off in nature, no material adverse impact has been brought by the Problematic Purchases onto the financial position of the Company.

Accordingly, the Company is of the view that it has fulfilled this Resumption Guidance (1).

**2. Resumption Guidance (2) – *Conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules***

As mentioned in “Fulfilment of the Resumption Guidance— 1. Resumption Guidance (1) – Conduct an appropriate independent review into the Issues, assess the impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions” above, the Internal Control Consultant was engaged to assess and identify significant weaknesses in the relevant procedures, systems and controls of the Group in relation to its existing business operations (which excluded the already ceased and discontinued Supply Chain Business), and to report findings and make recommendations for the enhancement of the internal control of the Group.

As at the date of this announcement, the 15 internal control deficiencies on the existing business segment and the internal control system and procedures of the Group have been fully rectified by the Company. The Board is of the view, which the Audit Committee and the Independent Director Committee concurred, that (i) the related risks arising from the identified deficiencies have been managed to an acceptable level; (ii) the remedial actions and enhancement measures implemented by the Group are adequate and sufficient; and (iii) the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules.

Accordingly, the Company is of the view that it has fulfilled this Resumption Guidance (2).

**3. Resumption Guidance (3) – *Publish all outstanding financial results required under the Listing Rules and address any audit modifications***

The Company has published all the outstanding financial results and reports required under the Listing Rules in satisfaction of the Resumption Guidance (3). The table below sets out the date of publication of, and the weblink to, the relevant financial results and reports.

<u>Financial results/reports</u>	<u>Date of publication</u>	<u>Weblink</u>
FY2020 Annual Results	9th September, 2022	<a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0912/2022091200049.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0912/2022091200049.pdf</a>
Annual report 2020 (annual report of the Company for FY2020) (the “ <b>FY2020 Annual Report</b> ”)	18th September, 2022	<a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0918/2022091800117.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0918/2022091800117.pdf</a>

Unaudited consolidated results of the Company for the six months ended 30th June, 2021 (“ <b>1H2021</b> ”)	31st August, 2021	<a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0901/2021083101828.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0901/2021083101828.pdf</a>
Interim report 2021 (interim report of the Company for 1H2021)	27th September 2021	<a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0927/2021092700323.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0927/2021092700323.pdf</a>
Audited consolidated results of the Company for FY2021 (the “ <b>FY2021 Annual Results</b> ”)	9th September, 2022	<a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0912/2022091200051.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0912/2022091200051.pdf</a>
Annual report 2021 (annual report of the Company for FY2021) (the “ <b>FY2021 Annual Report</b> ”)	18th September, 2022	<a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0918/2022091800119.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0918/2022091800119.pdf</a>
Unaudited consolidated results of the Company for the six months ended 30th June, 2022 (“ <b>1H2022</b> ”)	31st August, 2022	<a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0831/2022083102164.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0831/2022083102164.pdf</a>
Interim report 2022 (interim report of the Company for 1H2022)	23rd September, 2022	<a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0923/2022092301037.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0923/2022092301037.pdf</a>

The Company’s auditor, BDO Limited (the “**Auditor**”), expressed a disclaimer of opinion on the consolidated financial statements of the Company for FY2020, included in both the FY2020 Annual Results and the FY2020 Annual Report, which was due to, amongst others, the circumstances surrounding the Problematic Purchases, where the Auditor considered to have not received sufficient audit evidence to satisfy themselves as to the nature, business rationale and commercial substance of the transactions carried out under the already ceased supply chain business of the Company (collectively, the “**Disclaimer Basis**”). Please refer to the FY2020 Annual Results and the FY2020 Annual Report for further details of the basis for the disclaimer of opinion for the FY2020 results.

Having taken into consideration the efforts in addressing the Resumption Guidance (1) as discussed above, the Audit Committee and the Board consider that the Company has fully cooperated with the Auditor and has made its best efforts to obtain and provide all available audit evidence (including, but without limitation, the findings and resultant Investigation Reports and unfettered access to the contemporary records and documents possessed by the Company) to the Auditor. However, due to certain limitations encountered by the Investigative Works (as further detailed in the Major Findings Announcement) and circumstances beyond the control of the Company, such available audit evidence were considered insufficient to attain the level of assurance to the

Auditor's satisfaction, which led to the Auditor's disclaimer of opinion on the FY2020 results.

The Auditor expressed a qualified opinion on the consolidated financial statements of the Company for FY2021, included in both the FY2021 Annual Results and the FY2021 Annual Report, which was due to the fact that the Disclaimer Basis remained unresolved during the audit for FY2021 results, causing the Auditor being unable to determine whether the profit for FY2021 from the discontinued operation, the loss for the year from discontinued operation during FY2020, and the related disclosures relating to the discontinued operation are fairly stated. The consolidated financial statements of the Company for the FY2021 was qualified on the possible effects on the comparability of the FY2021 figures and the corresponding figures for FY2020 in the audited consolidated financial statements for FY2021. Please refer to the FY2021 Annual Results and the FY2021 Annual Report for further details of the basis for the qualification of opinion for the FY2021 results.

The Audit Committee and the Board consider that the qualification included in the FY2021 Annual Results and the FY2021 Annual Report was limited to the discontinued operation of the Group. On such basis, the Board is of the view, which the Audit Committee concurred, that the impact of the audit issues contained in the FY2020 Annual Results and the FY2020 Annual Report has been duly eliminated during the FY2021.

The Auditor, after discussions with the Board, considered that it has not been aware of any matters contributing to the disclaimer of opinion in both the FY2020 Annual Results and the FY2020 Annual Report and qualified opinion, or the qualification of opinion in the FY2021 Annual Results and the FY2021 Annual Report, that might have a continuing effect on the consolidated financial statements of the Group for the year ending 31st December, 2022, except for the comparability of the FY2021 figures presented in the consolidated financial statements of the Company for the year ending 31st December, 2022.

Accordingly, the Company is of the view that it has fulfilled this Resumption Guidance (3).

**4. Resumption Guidance (4) – *Demonstrate the Company's compliance with Rule 13.24 regarding sufficient operations and assets to warrant the continued listing of its shares***

The Group is currently principally engaged in the uranium trading business (the "**Uranium Trading Business**") and the uranium resources development business (the "**Uranium Resources Development Business**"), both of which have been the principal businesses of the Company since 2012 and 2009, respectively.

As at the date of the announcement, the Company is indirectly held by China National Uranium Corporation, Limited (中國鈾業有限公司) ("**CNUC**"), which is in turn a subsidiary of China National Nuclear Corporation (中國核工業集團有限公司) ("**CNNC**", together with its subsidiaries, the "**CNNC Group**"). Having over 60 years of

expertise in the nuclear field, CNNC is a state-owned enterprise with operational segments encompassing the full nuclear fuel cycle. The Company, being the only offshore listed company within the CNNC Group and under the operational segment of CNUC as its indirect subsidiary, has been strategically positioned by CNUC to be its major platform in overseas uranium resources exploration, development and trading.

On the back of its strategic positioning as CNUC's major platform in overseas uranium resources exploration, development and trading, the Group aims to become an active player in the global uranium trading market through continuous expansion of its Uranium Trading Business, connecting worldwide customers and suppliers and alongside assisting CNUC's procurement of natural uranium products from the international market. At the same time, despite the Uranium Resources Development Business having been affected by exogenous factors out of the Company's control which led to its current status, the Company considers engaging in uranium resources development remains a strategic business goal of the Company, as it is synergistic and complementary to and can be vertically integrated with the Uranium Trading Business, not least in line with its strategic positioning.

**(a) *Sufficient Operations***

**(i) *The Uranium Trading Business***

The Uranium Trading Business has always been the core business segment of the Company since the Company commenced its operation back in 2012. It operates within the international uranium industry and involves trading of natural uranium products procured by the Company in the global market. The year 2022 marked a significant milestone of the Company, for it has expand its Uranium Trading Business into the PRC through the entering into of the continuing connected transactions with its parent company, namely CNUC.

The table below sets forth the revenue, gross profit as well as the trading volumes of the Uranium Trading Business for the historical three financial years ended 31st December, 2021 and the six months ended 30th June, 2022:

	<b>For the year ended / As at 31st December,</b>			<b>For the six months ended</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>/ As at 30th June, 2022</b>
	(Audited) <i>(approximate HK\$'million)</i>	(Audited) <i>(approximate HK\$'million)</i>	(Audited) <i>(approximate HK\$'million)</i>	(Unaudited) <i>(approximate HK\$'million)</i>
Revenue	601.3	663.0	280.6	573.8
Gross Profit	9.4	13.0	20.6	17.6
Gross Profit Margin (%)	1.6	2.0	7.3	3.1
<b>Trading Volume:</b>	<i>(approximate million pounds)</i>	<i>(approximate million pounds)</i>	<i>(approximate million pounds)</i>	<i>(approximate million pounds)</i>
Purchase volume	3.7	2.0	0.9	1.6
Sales volume	2.9	2.9	0.9	1.6

Given that (a) uranium materials are often conceived as strategic resources that are intrinsically tied to national security; (b) the operation of uranium-related business is capital and skill intensive in nature; and (c) the uranium trading industry is relatively opaque and has been dominated by limited active market players, the uranium industry has high barriers of entry for new entrants. Since the Fukushima Accident in 2011, the uranium market had experienced a prolonged depression. It was only until 2017 that the decrease in uranium supply started to foster a market rebalancing and carried forward in subsequent years, as accelerated by factors including (without limitation) (i) the loss of some mines that reached the end of their mines life; (ii) additional production cutbacks brought by the outbreak of COVID-19 pandemic in 2020; and (iii) the new entrance of large quantity of purchase by financial entities in 2021 as uranium-related equity prices rose. All these factors resulted in a notable rebound of the uranium market towards the end of 2021. Further, as aggravated by the increased geopolitical issues between Ukraine and Russia, uranium spot prices have largely maintained at a high level since the upsurge of the spot uranium price in the end of 2021.

As acknowledged by the industry consultants of the Company, namely UxC and Frost & Sullivan (the “**Industry Consultants**”), uranium traders, such as the Company, are major participants in the international uranium market. The existence of uranium traders has brought notable benefits to the overall uranium market by, among others, providing producers with an outlet for their unsold/excess inventories, creating new demand in the near-term market by pulling forward demand of utilities, increasing market liquidity, enhancing price discovery and mitigating market disparities and risks. Traders may also act to mediate between buyers and sellers that may not want to participate in the spot

market directly, or restrained (for whatever reasons) from conducting direct trades with each other.

Besides, according to UxC, the profit margin of each uranium trade can range between 1% and 10%, with most of the trades fall within the range of 1% to 5%. As shown above, for each of the year ended 31st December, 2019, 2020 and 2021 and the six months ended 30th June, 2022, across varying external market environment and internal factors, and even excluding the relatively exceptional profit margin of 7.3% achieved in the year of 2021, the Uranium Trading Business has maintained a gross profit margin in the range of 1.6% to 3.1%, which is in line with the abovementioned general range of uranium trades. Accordingly, the profit margins of the Uranium Trading Business have aligned with the global industry standard.

In general, the Company conducts its uranium trade transactions under two main categories of trading formats, namely the back-to-back trading format and direct inventory sales trading format, depending on factors such as location of delivery, sales quantities, delivery schedule, selling price and customer's preference. Depending on the form of each transaction, services to be provided by the Group may include (i) sourcing of potential suppliers and customers; (ii) contract negotiation; (iii) assistance in obtaining approval from the relevant regulatory authorities in respect of the entering of the sale and purchase agreement; (iv) assistance in applying for natural uranium import/export permits for physical delivery transactions; (v) preparation and verification of natural uranium delivery documents to meet regulatory requirements; (vi) logistics tracking of the natural uranium products; (vii) receipt and exchange of the natural uranium products and related documents; (viii) settlement of payment for natural uranium products; (ix) after-sales service such as handling of quality issues; (x) consultation and sharing market intelligence and insights with customers regarding the outlook of the uranium market as well as the short and long term demand; and (xi) tracking activities of suppliers and customers. The aforesaid services are often performed, by leveraging on the specialised knowledge, network and market intelligence accumulated by the Company over the years of the uranium trading.

The Company enjoys a number of competitive advantages in the uranium trading market, amongst which, (i) it is a reliable and trustworthy trader strategically based in Hong Kong, an international finance centre, which is preferred by international suppliers and customers; (ii) it has a broad customer base and source of supply; (iii) it has a proven track record in the international uranium trading space, of which its uranium trading activities have represented roughly 5% of the world's entire trading activity in the period from 2016 to early 2022; (iv) it is well positioned to act as a gateway to Asian markets; and (v) it has an established professional team and strong affiliation with the parent company. The Company considers that these competitive advantages, coupled with the extended years of business experience in uranium trading, would pave the road for the Company to



operate its Uranium Trading Business in a continuous, viable and sustainable manner.

Looking forward, alongside its expansion plan into the PRC market, the Company will continue to leverage on its competitive advantages to develop its Uranium Trading Business in the international realm, riding on its established industry recognition and business track record and taking advantage of the improving uranium market conditions, by proactively capturing more trade opportunities offered in the market.

*(ii) The Uranium Resources Development Business*

The Company commenced the Uranium Resources Development Business in 2009. Unfortunately, the Uranium Resources Development Business has been stagnant, due to the reasons that (i) the Company has experienced difficulties in extending the exploration license from the Mongolian Authority, notwithstanding that the prolonged negotiation is still ongoing; and (ii) the production of the uranium resources project in Niger has been suspended since 2015 as a result of the depressed uranium market prices and demand which rendered mining of the uranium resources not economically justifiable, which led to a severe deterioration in cashflow and financial conditions of the Niger project.

As at the date of the announcement, the Company remains and will continue to actively work on resolving the issues surrounding its Mongolian mining project. On the other hand, considering the recent recovery of the uranium market and uranium prices, the Company is in discussion with other shareholders of the Niger mining project to evaluate and examine the possibility of resuming its operation in the production of the uranium resources. The Company is committed to continue pursuing its Uranium Resources Development Business, to use its best efforts to resolve the issues surrounding its existing uranium mining projects, and to seek to identify other high grade and low cost uranium resources projects to complement the growth of the Group in the longer run, with due care and consideration.

**(b) *Sufficient assets***

As disclosed in the interim report of the Company for the six months ended 30th June, 2022, the total assets and net assets of the Group were approximately HK\$814,217,000 and HK\$345,249,000 as at 30th June, 2022, respectively. During the aforesaid period, the Group also recorded a net cash inflow of approximately HK\$21,005,000, as compared to a net cash outflow of approximately HK\$28,358,000 during the corresponding period in 2021. The Board conceived the Uranium Trading Business to be a comparatively stable business as it has generally been operating with a gross profit position over the years. Taking into account of the favourable market conditions and the improving business performance of its Uranium Trading Business since 2021, and complemented with

the continuing connected transactions with CNUC as discussed above, the Board is positive about the outlook of the Uranium Trading Business and anticipates that positive cash flow will continue to be generated from the Company's operating activities in near future.

Furthermore, as disclosed in the announcement of the Company dated 17th June, 2022, the Company entered into a loan agreement with CNNC Treasury Management Co. Limited ("CNNCTM"), pursuant to which CNNCTM agreed to provide a revolving loan for a maximum principal amount of US\$50,000,000 (the "**Trade Loan**") to the Company with a drawdown period of one year, during which the Company could make multiple drawdowns in accordance with the terms of the Trade Loan. CNNCTM is a subsidiary of CNNC, which in turn is the ultimate controlling shareholder (has the meaning ascribed to it under the Listing Rules) of the Company holding an indirect interest in approximately 66.72% of the issued share capital of the Company. For further details please refer to the announcement of the Company dated 17th June, 2022. The Directors are of the view that The Trade Loan demonstrates the commitment and full support of the CNNC Group towards the Group in its future development in the uranium trading business. The Directors believed the Trade Loan would further strengthen the liquidity resources and provide financial support to the Group to enlarge its uranium trading business.

As at the date of this announcement, the business operations of the Group are continuing as usual in all material respects. Looking forward, the Company is optimistic about its future business prospect, taking into account, among others (i) the industry knowledge and insights, understanding of industry working dynamics, strong industry network and solid reputation, recognition and presence in the international uranium industry it has accumulated through over a decade of continuing operations of its Uranium Trading Business; (ii) the gradual recovery of the uranium market, which is not only beneficial to the Uranium Trading Business but also favourable to further development of the Uranium Resources Development Business; (iii) the horizontal expansion of the Group's Uranium Trading Business to the PRC market through the continuing connected transactions with CNUC, which is expected to further improve the scale and scope of the Uranium Trading Business; (iv) the synergies and further benefits (such as further solidifying the market standing and recognition and further strengthening its international market position and negotiating power) brought from the continuing connected transactions with CNUC towards the Group's international uranium trading; and (v) the shareholder background and the unique position of the Company within the CNNC Group which enable the Company to tap on various project and financial resources and support as and when needed.

Based on the above, the Board is of the view that the Group has a viable and sustainable business with a sufficient level of operations and assets of sufficient value to support its operations to meet the requirements under Rule 13.24 of the Listing Rules and warrant the continued listing of the Shares on the Stock Exchange.

Accordingly, the Company is of the view that it has fulfilled this Resumption Guidance (4).

**5. Resumption Guidance (5) – *Inform the market of all material information for the Company’s shareholders and investors to appraise the Company’s position***

Since the suspension of trading of the Shares, the Company has kept its shareholders and investors informed of all material information to appraise the Company’s position by way of announcements published on the websites of the Stock Exchange and the Company.

**RESUMPTION OF TRADING**

Trading in the Shares has been suspended since 9:00 a.m. on 30th April, 2021. As all the Resumption Guidance have been satisfied, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 18th October, 2022.

**Shareholders and potential investors should exercise caution when dealing in the shares of the Company.**

By order of the Board  
**CNNC International Limited**  
中核國際有限公司  
**Li Philip Sau Yan**  
*Company Secretary*

Hong Kong, 17th October, 2022

*As at the date of this announcement, the Board comprises non-executive director and chairman, namely Mr. Zhong Jie, executive director and chief executive officer, namely, Mr. Zhang Yi, non-executive director, namely, Mr. Wu Ge and independent non-executive directors, namely, Mr. Cui Ligu, Mr. Zhang Lei and Mr. Chan Yee Hoi.*